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December 3, 2008

Peter H. Wulfman, Division Manager

Solid Waste Management Division

222 W. Hospitality Lane, 2nd Floor

San Bernardino, CA 92415-0017

**Subject: MANAGEMENT LETTER – SOLID WASTE MANAGEMENT DIVISION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

We have completed an audit of the Solid Waste Management Division (SWMD) Enterprise Fund, for the fiscal year ended June 30, 2008 and have issued our report thereon dated December 3, 2008. In planning and performing our audit of the financial statements of the SWMD Enterprise Fund as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered SWMD's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of SWMD's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the following deficiencies to be significant deficiencies in internal control:

Significant Deficiency #1 – Untimely deposits

The County's Internal Controls and Cash Manual, Chapter 3, requires receipts to be deposited by the next business day when the amount reaches \$1,000. Due to inadequate cash controls, we noted that twenty-seven out of the forty receipts tested were not deposited by the next business day. Making untimely deposits increases the risk of a loss due to theft or misappropriation. In addition, interest earned on money deposited with the County Treasurer is lost by not making timely deposits.

Recommendation:

Management should provide accounting staff training regarding the Internal Controls and Cash Manual, specifically Cash Controls. SWMD staff should make deposits by the next business day when receipts exceed \$1,000.

Management's Response:

SWMD administration has implemented a process whereby staff prepares a daily deposit in the morning and armored car service picks up the deposit from SWMD each afternoon.

Significant Deficiency #2 – Prepaid expenses not recorded

Based on the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred. If payments are made before expenses are incurred, a prepaid expense must be recorded at June 30.

Due to a difference between the estimated amount paid in accordance with the contract with Burrtec and the actual amount of the expense incurred during the fiscal year, a prepaid expense went unrecorded. The contract with Burrtec provides for payments based upon estimated tonnages, with "true up" adjustments to be made in the following fiscal year. Estimated tonnages exceed actual tonnages for fiscal year 2008. The "true up" adjustment for fiscal year 2008 will reduce the amount paid to Burrtec in fiscal year 2009 for services performed in fiscal year 2009. In effect, payments were made to Burrtec before the corresponding expenses were incurred. An adjustment was necessary to properly record the prepaid expense at June 30, 2008.

Recommendation:

In accordance with Generally Accepted Accounting Principles (GAAP), the accounting staff should record prepaid expenses at year end for payments made in excess of incurred expenses.

Management's Response:

SWMD has implemented a process to identify and quantify potential prepaid expenses at the end of the fiscal year.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Material Weakness #1 – Closure/Post-closure miscalculation

GASB 18 is based on the U.S. Environmental Protection Agency (EPA) rule, which establishes closure requirements and thirty-year postclosure care requirements for all municipal solid waste landfills. Municipal solid waste landfills must determine the estimated total current cost of closure and postclosure care (Estimate). This Estimate is reviewed annually and is adjusted for any changes and/or inflation or deflation. This Estimate is required to be recognized as an expense and as a liability in each year that the landfill accepts solid waste based on the landfill's use so that the full amount of the Estimate is shown as a liability on the financial statements by the time the landfill is full. Calculating the amount to be reported for the year requires the total available capacity of the landfill, or the ultimate footprint, and the remaining capacity amounts to be estimated. Furthermore, capital assets excluded from the estimated total current cost of closure and postclosure care should be fully depreciated by the date that the landfill stops accepting solid waste.

The estimate of the available capacity of four of the six active landfills did not accurately reflect the ultimate footprint of each landfill. The estimates for these four landfills' available capacity increased significantly after a reevaluation was performed by the engineering staff. This reevaluation occurred as a result of miscommunications between the engineering staff and the accounting staff being resolved. Furthermore, there was a formula error in the electronic spreadsheet used to calculate the annual closure and postclosure expense.

Changes in the total available capacities and the remaining capacity estimates resulted in an adjustment to the closure and postclosure expense and a material adjustment to the depreciation expense and the accumulated depreciation.

Recommendation:

A complete review of the process for determining the available capacity of each landfill needs to be undertaken by the engineering staff and the accounting staff. They should determine appropriate capacity terms to use and the definition of each so that when information is requested the correct information is received. Forms sent to engineers requesting capacity information should be modified to include agreed upon terms and definitions. The closure/postclosure calculation spreadsheet should be reviewed in detail by another staff person not directly responsible for calculation of the closure/postclosure expense and the engineering staff before the director and chief engineers approve the Solid Waste Management Division's Master Closure/Postclosure Liability Report.

Management's Response:

At the end of each fiscal year, SWMD engineering and accounting staff will perform a complete review of all components of the Master Liability Worksheet to accurately represent the available capacity of each landfill at that point in time.

Material Weakness #2 – Improper year-end cutoff of payments

In accordance with GAAP, a proper cut off must be identified for the year-end accrual of Accounts Receivables and Revenues to be reported accurately. The cut off for SWMD accounts receivable payments is June 30, 2008. However, during our cutoff testing, we identified 14 checks received between July 1, 2008 and July 15, 2008 that were posted to account balances reported for the June 30, 2008 accrual entry. This discrepancy occurs between the fiscal year end and the reconciliation of the receivables aging schedule in the third week of the new fiscal year due to limitations of the accounting software. This resulted in the year-end accrual for accounts receivable and revenue to be understated by approximately \$2 million.

Recommendation:

We recommend that SWMD personnel review the year-end accrual for accounts receivable for proper year-end cutoff of payments and track payments received between the fiscal year cut-off and the reconciliation performed during the third week of the new fiscal year to properly adjust the receivables balance.

Management's Response:

SWMD will implement an annual year-end process to record and track payments received between the fiscal year cut-off and the reconciliation performed during the third week of the new fiscal year to properly adjust the receivables balance.

This communication is intended solely for the information and use of management, the Audit Committee, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Howard M. Ochi
Chief Deputy Auditor

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Date Report Distributed: 3/11/09

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